



Legal Frameworks Regarding Cryptocurrency in Nepal

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Abstract

The Nepali government has declared all cryptocurrency-related activities illegal due to its exclusive currency issuance authority and stringent foreign exchange regulations. This prohibition is based on robust anti-money laundering laws and the potential applicability of evolving digital legislation. The article also assesses the costs and risks associated with illicit cryptocurrency activities and encompassing severe legal consequences, financial exposure, and cyber security threats. Finally, it explores the paradox of Nepal Rastra Bank's exploration into a Central Bank Digital Currency (CBDC), suggesting a recognition of digital currency's future while prioritizing national control and stability. The study concludes by emphasizing the imperative for public adherence to existing prohibitions while acknowledging the long-term trajectory towards digital financial innovation.

Keywords: *Cryptocurrency, Nepal Rastra Bank, Foreign Exchange, Anti-Money Laundering, Blockchain, Financial Regulation, Bitcoin, Cryptography, Mining, Deanonimization, Digital Currency.*

1. Introduction

A cryptocurrency is defined as a digital currency that is secured through cryptography. It's easy to assume that it is similar to the credit and debit cards we already use, but a lot sets it apart- it works using a completely different system. What makes them so different is that there is no governance through a central authority- no Federal Reserve, no central bank, no mint overseen by the government responsible for printing coins and paper for the public's use. No single person has control of the coins or the system they are held within, which means that no single person or group can take control or manipulate them.¹⁵⁶

¹⁵⁶ The Crypto Crash Course- Frank Richmon

The international financial landscape has undergone a monumental revolution with the burgeoning advent of cryptocurrency. Originating with Bitcoin in 2009, which remains the most dominant form, thousands of cryptocurrencies have subsequently emerged, forging a sprawling global network of digital assets. This paradigm shift challenges traditional notions of currency, monetary sovereignty, and financial regulation. Against this backdrop, Nepal presents a distinctive case study, having declared all forms of cryptocurrency transactions and associated activities illegal. This research article aims to comprehensively analyze the legal and socio-economic implications of Nepal's statutory prohibition on cryptocurrency, drawing upon extant legal frameworks, governmental directives, and comparative international perspectives.

1.1 Background

The rapid proliferation of cryptocurrencies has compelled governments worldwide to reassess their monetary and financial policies. While some nations have embraced these digital assets, seeking to harness their potential, others have adopted cautious or even outright prohibition measures due to concerns over financial stability, consumer protection, and the potential for illicit activities. Nepal falls into the latter category, maintaining a stringent ban on cryptocurrencies.

This makes it necessary to meticulously scrutinize the underlying legal and socio-economic rationale behind Nepal's stance, particularly as the global digital financial ecosystem continues to evolve. The country's unique economic structure, heavy reliance on remittances, and evolving regulatory capacity make its approach to cryptocurrency a significant area of inquiry.

1.2. Objectives of the Study

This research aims to comprehensively analyze the legal and socio-economic implications of Nepal's statutory prohibition on cryptocurrency by:

- Outlining the specific legal provisions underpinning Nepal's ban on cryptocurrencies, including the **Nepal Rastra Bank Act, the Foreign Exchange (Regulation) Act, and the Act Restricting Investment Abroad.**
- Investigating the broader governmental and regulatory perception driving this prohibitive stance, focusing on concerns regarding financial stability, consumer protection, and illicit activities.
- Exploring the **indirect application of Nepal's robust Anti-Money Laundering (AML) regime** to cryptocurrency activities.
- Discussing the **potential applicability of other evolving digital legal frameworks**, such as the **Electronic Transactions Act** and the pending **Information Technology Bill.**
- Conducting a **Comparative Analysis** with regulatory approaches in other **South Asian Nations** and the **European Union's Markets in Crypto-Assets (MiCA)** regulation.
- Examining the **costs and risks, legal consequences, financial exposure, and cybersecurity threats** borne by individuals engaging in illicit cryptocurrency activities in Nepal.
- Analyzing the **strategic paradox** of the Nepal Rastra Bank's exploration into a **Central Bank Digital Currency (CBDC).**

2. Literature Review

The academic discourse on cryptocurrency regulation is extensive, categorizing countries based on their regulatory stances: those that have been comprehensively regulating cryptocurrency (the European Union), those that have adopted a cautious, taxation approach (India), and those that promote outright prohibition. Researches by **Arner, Buckley, and Zetzsche** emphasizes the challenges that various governments face while attempting to create a balance in financial innovation, consumer protection, and financial stability (Arner et al., 2020).

Prohibitions are often driven by concerns over **money laundering (ML)** and **terrorist financing (TF)**, with FATF reports consistently highlighting associated risks. Developing economies with less robust financial surveillance, tend to adopt more restrictive stances due to these perceived risks and their potential impact on financial stability and foreign exchange reserves (Kumar & Pandey, 2021).

The relationship between cryptocurrency and remittances is also explored, with concerns raised about potential capital flight and tax revenue loss (**Mohamed & Al-Ali, 2022**). **Central Bank Digital Currencies (CBDCs)** are viewed as central banks' response to private cryptocurrencies, aiming to enhance monetary policy effectiveness and financial inclusion while mitigating risks (**Bindseil, 2020; Auer et al., 2020**). This research builds upon these themes by providing a focused case study of Nepal's unique statutory prohibition within the context of a developing economy.

3. Legal Provisions for Cryptocurrency in Nepal

Nepal's legal framework unequivocally declares cryptocurrency activities illegal. The Nepal Rastra Bank (NRB) holds exclusive authority over currency issuance and monetary system management, as per **Section 52(1) and Section 61 of the Nepal Rastra Bank Act, 2058 (2002)**.

Furthermore, the **Foreign Exchange (Regulation) Act, 2019 (2075 B.S.)** regulates all foreign exchange transactions and makes cryptocurrencies illegal due to its unauthorized financial nature; to protect Nepal's economic interests. **Section 3** stipulates that cryptocurrencies inherently operate as a form of "**foreign exchange**" in a decentralized and unregulated manner, their acquisition, transfer, and holding without NRB authorization directly contravene this critical provision. **Section 17 (1)** of this act imposes harsh penalties, including confiscation of property, fines up to 3 times the property's worth, and imprisonment up to 7 years, or both. An extra 3-year sentence could be imposed for sums exceeding NPR 10 million.

Through a number of public notifications, and circulars, the NRB has consistently reinforced this position; the most recent reaffirmation published in September 2021. All cryptocurrency-related activities, including mining, holding, and trading, are forbidden under these directives. These prohibitions are not merely advisory but carry significant legal consequences, as evidenced by recent arrests and prosecutions under these existing laws.

Muluki Criminal Code, Section 262. Prohibition of bringing prohibited currency into use:

- a. No person shall bring into use, exchange or possess a currency in use but circulation of which has been banned by order of the competent authority under law, in violation of such order.
- b. A person who commits, or causes to be committed, the offence related to in sub-section (1) shall be liable to a sentence of imprisonment for a term not exceeding one year or a fine not exceeding ten thousand rupees or both the sentences, and the currency so brought into use, exchanged or possessed shall also be forfeited.

Similarly, with the advice of His Majesty King Mahendra Bir Bikram Shah Dev and approval by the National Panchayat, the **Act Restricting Investment Abroad, 1964** prohibits Nepali citizens from engaging in any foreign investment activities. Given the porous nature of cryptocurrency, an investment by a Nepali in such digital currency is the equivalent of an investment abroad, which is a clear violation of the act.

Therefore, the NRB's stance is firmly established by current laws that collectively aim to maintain monetary stability, control foreign exchange, and prevent illegal financial flows within the Nepalese economy.

4. Government Perception and Anti-Money Laundering Framework

The Nepalese government's perception of cryptocurrency aligns with the NRB's, driven by concerns over financial stability, consumer protection, and illicit activities, particularly money laundering and terrorist financing. The perceived anonymity and decentralized nature of cryptocurrencies are major concerns.

Nepal possesses a robust anti-money laundering (AML) framework, indirectly applicable to crypto-related illicit activities. The **Asset (Money) Laundering Prevention Act, 2064 (2008)**, forms the backbone of Nepal's AML regime. If detected, the legitimization of illegally earned money through cryptocurrency could be prosecuted under this Act.

The NRB has issued notices, strictly emphasizing the illicit nature of Cryptocurrencies:

- a. 2074/04/29: Initial declaration making Bitcoin transactions illegal (FreemanLaw).
- b. 2078/05/24: Explicit notice prohibiting cryptocurrency "karobar" (NRB, 2021).
- c. 2079/04/30: Expanded illegality to include all virtual currencies, hyperfund, and network marketing (NRB, 2022).
- d. 2079/12/20: Comprehensive notice including NFTs, digital assets, USDT, and decentralized finance (DeFi) (NRB, 2023).

4.1. CASE ILLUSTRATION (Depu Mandal and Associates- 2021 A.D.)

In 2021, a victim from Hyderabad in India, B. Kiran supposedly lost Rs 86 lakh after clicking on an online fraudulent link. Three Nepali nationals (Gopal Sherpa, Sushil Gurung, and

Nima Tamang) were arrested. The accused, Depu Mandal was being helped by the 3 Nepalese Nationals. Despite the lack of specific crypto-legislation, Anti-Money Laundering laws can be leveraged to pursue cryptocurrency-related offences.

The identities of both buyers and sellers remain hidden due to the decentralized system of cryptocurrency, further exacerbating a legal challenge in the prosecution of the responsible culprits. Nepalese authorities view this ‘anonymity’ as a responsible factor for heinous crimes, provoking the rapid escalation of money laundering, drug trafficking, and terrorism financing. Ultimately, the apprehension is that the widespread use of cryptocurrencies directly compromises **National Security** and **Financial Security**.

5. Potential Applicability of Other Legal Frameworks

While Nepal currently lacks specific legislation directly addressing cryptocurrencies, several existing and pending legal frameworks could potentially apply to or influence the regulation of block-chain technology, and by extension, cryptocurrencies in the future, should the government’s stance evolve.

Are Cryptocurrencies Other than Bitcoin Legal in Nepal? The illegality isn’t limited to Bitcoin; it extends to all cryptocurrencies like Ethereum, USDT, Dogecoin, and digital assets like NFTs and DeFi tokens. NRB’s notices broadly cover any virtual currency or token that functions as a financial instrument.¹⁵⁷

The **Electronic Transactions Act, 2063 (2006)**, provides a foundational legal framework for digital activities, legitimizing electronic records and digital signatures. This Act would be relevant for recognizing and enforcing digital transactions if blockchain-based systems were legalized. It also outlines cyber offenses potentially extendable to illicit activities within a regulated crypto environment.

The **Information Technology Bill (pending)** represents a crucial piece of proposed legislation that aims to address various facets of digital technology. This bill, once enacted, could potentially include specific provisions related to cryptocurrencies and blockchain technology. This bill is highly crucial for a thorough regulatory passage, potentially moving beyond outright prohibition to a framework of controlled legalization.

The **National Cyber Security Policy, 2073 (2016)**, though not directly addressing cryptocurrencies, outlines Nepal's approach to digital security. It would guide safeguarding any future digital asset ecosystem given the inherent cybersecurity threats linked to blockchain and cryptocurrency technologies.

Finally, the **Telecommunications Act, 2053 (1997)**, could regulate internet-based cryptocurrency activities if legalized, providing a framework for oversight of online crypto

¹⁵⁷ <https://wealthnepal.com/is-bitcoin-legal-in-nepal/>

platforms. Even though Nepal currently has strict rules against digital currencies and blockchain, its existing laws suggest a legal framework that could be adjusted for these complex technologies if Nepal decides to shift its policy.

6. Comparative Analysis of Cryptocurrency Regulation

Nepal's comprehensive prohibition on cryptocurrency contrasts sharply with the varied and evolving regulatory regimes globally.

6.1. South Asian Context

- a. **India:** The current Indian trajectory leans towards 'taxation and regulation' rather than 'outright prohibition'. For instance: the government implements a **30% tax on crypto profits** and a **1% Tax Deducted at Source (TDS)** on transactions. This indicates integration into the regulated financial system, acknowledging the asset class without endorsing it as legal tender.
- b. **Other South Asian Countries:** Bangladesh and Pakistan express strong concerns regarding money laundering, terrorist financing, and financial stability. Sri Lanka has also issued warnings. This collective cautious or negative stance reflects common concerns about unregulated cryptocurrencies' impact on vulnerable financial systems, reliance on remittances, and monetary policy control.

6.2. European Context (MiCA Regulation)

Unlike the South Asian landscape, Europe has moved towards comprehensive regulation. Generally, cryptocurrencies are not illegal in most European countries but are increasingly subject to robust regulatory frameworks. The **Markets in Crypto-Assets (MiCA) regulation**, a landmark EU legislative effort, aims to establish a harmonized framework for crypto-assets across its 27 member states.

MiCA

1. **Objectives:** Include licensing requirements for crypto-asset service providers (CASPs), consumer protection, prevention of illicit activities, and fostering market integrity and financial stability.
2. **Implementation and Scope:** MiCA entered into force in June 2023, with phased applicability (e.g., stablecoin regulations from June 2024, full application for CASPs from December 2024). It covers a wide range of crypto-assets not currently regulated by existing financial services legislation, reflecting a strategic decision to regulate rather than prohibit.

Nepal's outright ban positions it at the far end of the regulatory spectrum compared to the EU's proactive and comprehensive approach.

7. Risks and Consequences of Illegal Cryptocurrency Activities in Nepal

Given the explicit illegal status, engaging in cryptocurrency activities in Nepal carries significant and severe costs and risks.

7.1. Legal Consequences

The most immediate and tangible risk is the exposure to severe legal penalties, substantial fines, imprisonment, and forfeiture of assets. The **Foreign Exchange (Regulation) Act, 2019 (1962)**, the **Nepal Rastra Bank Act, 2058 (2002)**, the **Muluki Criminal Code, National Penal Code 2074 B.S.**, and the **Bank and Financial Institutions Act (BAFIA)** all stipulate penalties ranging from asset confiscation to lengthy prison sentences. Recent arrests, such as 52 individuals (including Chinese nationals) in a Kathmandu cryptocurrency racket, underscore the active reinforcement of these prohibitions by Nepalese law enforcement agencies.

7.2. Financial Risks

Due to Nepal's lack of a legal framework for Cryptocurrency, those engaged in cryptocurrency have no legal recourse for victims of fraud, theft, or technical malfunctions. This exposes investors to substantial financial losses from scams, misleading advertising, and market volatility, without any safety nets.

7.3. Regulatory Uncertainty and Reputational Risks

The evolving global regulatory landscape creates complex legal dilemmas for Nepalese citizens involved in cross-border crypto activities. Involvement in illegal activities also severely damages personal and professional reputations.

7.4. Cybersecurity Threats

Without a regulated framework, Nepalese citizens engaging in crypto activities are highly susceptible to cybercrimes such as hacking and phishing. In this case, the absence of legal protection means there are no avenues for the redressal or recovery of stolen digital assets.

7.5. Impact on Remittances and Foreign Exchange Reserves

Remittances are the backbone of the Nepalese economy. The NRB's primary concern is that widespread cryptocurrency use for cross-border transfers could bypass official channels, reduce taxable income, and potentially drain national foreign exchange reserves.

Cryptocurrency also poses a twofold threat to foreign exchange reserves: the potential central bank acquisition of digital assets to maintain reserves, thereby reducing traditional foreign currency availability; and the artificial inflation of demand if recognized as reserve assets, which could impact the country's financial status and international trade competitiveness.

8. The Strategic Paradox: Nepal's Consideration of a Central Bank Digital Currency (CBDC)

Despite its firm prohibition on decentralized cryptocurrencies, the Nepal Rastra Bank is actively exploring the possibility of issuing its own Central Bank Digital Currency (CBDC). This paradox signifies a nuanced recognition that digital currencies represent the future of financial transactions. While acknowledging potential benefits, Nepal remains cautious of

unregulated, decentralized cryptocurrencies. A national digital currency would allow Nepal to maintain stringent control over monetary policy, ensure financial stability, and mitigate risks associated with anonymity, fraud, and money laundering.

A successfully designed CBDC, ensuring regulation, stability, minimum validation requirements, effective tax collection, and no adverse foreign exchange consequences, could significantly modernize Nepal's financial infrastructure. This exploration indicates that the government is not entirely averse to digital financial innovation but maintains a prohibitive stance on private cryptocurrencies as a pragmatic measure to protect economic sovereignty and financial integrity from unregulated, volatile assets.

9. Fundamental Concepts and Technical Underpinnings of Cryptocurrency

Understanding the core concepts and technical underpinnings is essential for comprehending the complexities of cryptocurrency.

A History of Central Banking and the Enslavement of Mankind is a banned book by Stephen Goodson, which highlights the flaws of the traditional banking system. He writes, "This book provides insights as to how private bankers since ancient times have abused monetary systems, whether they are based on coin, bank notes, cheque or electronic money, by creating money out of nothing as an interest bearing debt to arrogate supreme power to themselves. It also provides a record, both ancient and modern, of societies and civilizations that have flourished in an environment free from usury. The solution is simple and self-evident. Suppose we wish to obtain our liberation and sovereignty from the enslavement imposed by the private bankers. In that case, we must dismantle their fractional reserve system of banking and supporting central banks, or we shall be destroyed and consigned to oblivion."¹⁵⁸

Thomas Jefferson, then **Secretary of State**, opined about Central banking that:

"The Central Bank is an institution of the most deadly hostility existing against the principles and form of our Constitution...I believe that the banking institutions are more dangerous to our liberties than standing armies. Already, they have raised a moneyed aristocracy that has set the government in defiance. The issuing power should be taken from the banks and restored to the people it belongs to. If the American people ever allow the banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that grow up around them will deprive the people of all property until their children wake up homeless on the continent their father occupied."¹⁵⁹

9.1. Public Key and Private Key

Elliptic Curve Cryptography (ECC) generates public and private key pairs.

Public Key: A cryptographic code acting as a digital address for receiving digital assets.

¹⁵⁸ A history of Central Banking and the Enslavement of Mankind- Stephen Goodson

¹⁵⁹ <https://www.monticello.org/research-education/thomas-jefferson-encyclopedia/private-banks-spurious-quotation/>

Private Key: A highly confidential cryptographic code granting access and control over cryptocurrency linked to a public key. Its safeguarding is paramount for security.

9.2. Minting and Double-Spending

- a. **Minting:** Minting refers to the process of creating new units of cryptocurrency, which varies depending on the specific cryptocurrency's underlying protocol (e.g., Proof-of-Work, Proof-of-Stake).
- b. **Double-Spending:** The critical problem in digital currency, where the same digital unit could be spent more than once, is defined as '**double-spending**'. Cryptocurrencies use a sophisticated mechanism of blockchain to prevent this.

9.3. Blockchain and Transaction Verification

The blockchain is the foundational innovation addressing the double-spending problem.

- a. **Decentralized Ledger:** A distributed, immutable ledger recording all transactions across a network without a central authority. Instead of a central authority, a consensus mechanism verifies, and adds new transactions.
- b. **Timestamp and Hash:** Each block contains a timestamp and a cryptographic hash of the previous block, creating a secure and chronological chain. Any alteration in any past transaction breaks the chain, subsequently signalling tampering and ensuring immutability of the transaction history.
- c. **Proof-of-Work (PoW):** Many cryptocurrencies, like Bitcoin, use a "PoW" consensus mechanism, which involves miners expending computational power to solve cryptographic puzzles. The first to solve adds the next block of verified transactions to the blockchain and is rewarded with newly minted cryptocurrency. This computational cost deters malicious alteration of past transactions, since it would require re-solving the next set of networks.

9.4. Elliptic Curve Cryptography (ECC)

ECC is an asymmetric cryptography method based on the mathematical properties of elliptic curves, widely used in cryptocurrencies for generating public/private key pairs and digital signatures (Elliptic Curve Digital Signature Algorithm). It offers strong security with relatively smaller key sizes, making it efficient for resource-constrained environments like mobile devices.

9.5. Routine Escrow Mechanisms

Despite aiming for disintermediation, routine escrow mechanisms are often employed, particularly in marketplace settings like the infamous Silk Road. These mechanisms, often implemented through smart contracts, involve a neutral 3rd party holding cryptocurrency until predefined conditions of a transaction are met by both buyer and seller. This fosters trust and safeguards against fraud in transactions between unknown parties.

The Dark Side: Illicit Activities and the Silk Road Case Governments could lose the ability to control blockchain-based networks and the applications and services deployed on them. Laws are capable of adapting to regulate, constrain, and influence the development of blocks. Hereafter, blockchains are decentralized forms of network, similar to the internet.¹⁶⁰

¹⁶⁰ <https://www.hup.harvard.edu/books/9780674241596>

The very features that make cryptocurrencies appealing – their decentralized nature and perceived anonymity – have also made them a preferred medium for illicit activities, particularly on the darknet. The **Silk Road** case stands as a seminal example.

Launched by Ross Ulbricht, a libertarian, in February 2011 as "Dread Pirate Roberts," Silk Road was the first large-scale darknet marketplace. Operating on the Tor network for anonymity, it facilitated over \$200 million in transactions, predominantly for illegal drugs, using Bitcoin. This case highlighted the phenomenon of "deanonymization" which involved the analysis of metadata, correlation attacks, and linguistic analysis of various online posts and messages associated with Ulbricht.¹⁶¹

In May 2017, a computer virus named 'WannaCry' encrypted the user files and locked them behind the paywall, where Bitcoin was the mode of transaction to decrypt the files. The consensus among security experts and government agencies is that North Korea was the culprit behind the WannaCry attack. After WannaCry attack, global companies have been facing nuisance carried out by other cyberattacks. The rate at which these crimes have been skyrocketing point to the severe shortcomings of the security systems worldwide.¹⁶²

The case highlighted several critical concerns:

- **Anonymity for Illicit Trade:** Tor and Bitcoin enabled anonymous transactions, challenging law enforcement in identifying and prosecuting those involved in illicit trade (drugs, hitmen, fake passports, and unlicensed firearms).
- **Challenge to Government Authority:** Ulbricht's creation of Silk Road was seen by some as a direct challenge to the government's and bankers' monopoly over currency issuance and control.
- **Law Enforcement Response:** In October 2013, the FBI shut down **Silk Road** and arrested Ulbricht. His conviction in February 2015 for various charges, including criminal enterprise, narcotics distribution, money laundering, and computer hacking, resulted in a severe sentence. He received a full pardon from outgoing President Donald Trump on January 21, 2025, after serving nearly 12 years.

The Silk Road case underscored the inherent challenges of combating online crime and regulating digital currencies designed for anonymity. It fueled global debates on digital freedom, online crime, and the balance between security and privacy. For governments like Nepal, which already face limited resources for tracking such transactions, this precedent reinforces concerns about maintaining financial integrity and preventing criminal enterprises within borders.

¹⁶¹ <https://fastercapital.com/content/From-Pseudonyms-to-Identities--The-Risks-of-Deanonymization.html>

¹⁶² <http://zdnet.com/article/wannacry-ransomware-hackers-behind-global-cyberattack-finally-cash-out-bitcoin-windfall/>

11. Nepal's Current Stance on Cryptocurrency (as of July 2025)

As of July 2025, Nepal maintains a **complete ban on all cryptocurrency-related activities**, including buying, selling, holding, trading, mining, and encouraging their use. This prohibition extends to Bitcoin, stablecoins, NFTs, and other digital assets.

The ban is enforced under several acts, including the **Nepal Rastra Bank Act, 2002**, and the **Foreign Exchange (Regulation) Act, 1962**. The Nepal Rastra Bank (NRB) cites concerns such as financial instability, consumer protection, potential for illicit activities like money laundering, capital flight, and challenges in managing foreign exchange reserves.

Cryptocurrencies are **not recognized as legal tender or digital assets** in Nepal. Violators face severe penalties, including **confiscation of property, fines up to 3 times the value of the property involved, and imprisonment up to 7 years**, or both. Despite the ban on private cryptocurrencies, the **NRB is exploring the possibility of introducing a Central Bank Digital Currency (CBDC)**, which would be a regulated digital form of the Nepalese Rupee. The CBDC is positioned as a Government-Sanctioned Digital Initiative or a government-backed digital asset, offering an alternative within the regulated financial system, contrasting sharply with the prohibited decentralized cryptocurrencies.¹⁶³

Gunakar Bhatta, the NRB Spokesperson: Since Cryptocurrency is banned in Nepal, there is no thought about any other type of digital assets. Nepal's hesitation with cryptocurrency is clearly shown by its reluctance to use a stablecoin, even one tied to the Nepali Rupee. This suggests the country lacks a clear plan or understanding of how to handle new digital financial technologies.

The government's caution, even with less volatile options, highlights a bigger issue: a need for a simpler, more organized strategy to adopt and regulate these innovations. A representative from **Nepal Rastra Bank (NRB)**, Bhatta, has stated that Nepal is not acting in isolation regarding cryptocurrency. The central bank is actively engaging with the **Bank for International Settlements (BIS)** and other international partners to collaborate on a framework for legalizing or regulating these digital assets.¹⁶⁴

12. Conclusion

This research unequivocally demonstrates Nepal's steadfast and comprehensive prohibition on all cryptocurrency-related activities, deeply rooted in existing national laws, including the **Nepal Rastra Bank Act, 2058 (2002)**, the **Foreign Exchange (Regulation) Act, 2019 (1962)**, and the **Act Restricting Investment Abroad, 1964**. These instruments grant the NRB exclusive authority over currency issuance and foreign exchange, rendering unauthorized digital currency operations illegal.

¹⁶³ <https://bitcoinworld.co.in/nepal-rastra-bank-eyes-cbdc-development-amid-ongoing-crypto-ban/>

¹⁶⁴ <http://bitcoinworld.co.in/nepal-rastra-bank-eyes-cbdc-development-amid-ongoing-crypto-ban/>

Cryptocurrencies are banned in Nepal due to concerns about fraud, money laundering, and terrorism financing. The anonymity and decentralization of cryptocurrencies pose threats to national security and financial integrity. The lack of value regulation and volatility pose financial risks, especially in Nepal's fragile economy. The global financial revolution continues to pressure nations, suggesting outright prohibition isn't the only viable approach. Comparative analysis with India's regulated approach and the EU's comprehensive MiCA regulation underscores the diverse strategies employed by nations, indicating that outright prohibition is not the sole viable approach.

The most intriguing development is the NRB's ongoing feasibility study into a **Central Bank Digital Currency (CBDC)**. This initiative, distinct from decentralized cryptocurrencies, signifies a fundamental acceptance by Nepalese policymakers that digital innovation is indeed the future of monetary transactions. The NRB's cautious CBDC exploration indicates a desire to harness digital currency efficiencies while maintaining sovereign control, ensuring stability, preventing illicit activities, and safeguarding tax revenues and foreign exchange reserves. This strategic shift suggests a pragmatic evolution towards developing a "controlled" digital version of the national fiat currency.

In conclusion, despite the current prohibition, continued engagement in cryptocurrency transactions in Nepal highlights enforcement challenges in a digitally interconnected world and underscores the imperative for public awareness regarding severe legal and financial risks. Until Nepal possesses the necessary resources to robustly regulate decentralized cryptocurrencies or successfully implements its own national digital currency, adherence to existing laws remains crucial.

The journey towards a fully digitized and securely regulated financial landscape in Nepal will be protracted, demanding careful consideration, strategic planning, and adaptive legal frameworks. Respecting policymakers' decision to prohibit unregulated cryptocurrencies is essential for safeguarding the nation's financial stability and integrity.

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